
REPORT 3
(1215/52/IM)

SUBMISSION ON GREATER WELLINGTON'S AMENDMENT TO THE LTCCP 2003-2013 AND PROPOSED 2005/06 ANNUAL PLAN

1. Purpose of Report

To seek approval for the Council's submission on Greater Wellington's amendment to its Long-term Council Community Plan 2003-2013 and proposed 2005/06 Annual Plan.

2. Executive Summary

The key issues on raised by the amendment are:

- The need to implement the rail investments in a flexible manner as the findings of other major studies emerge
- Additional work to validate the Rail Business Case;
- Examining the proposed ownership structure for rolling stock;
- Linking the rail investment to supporting land use changes;
- Additional work on the financial projections.

These are addressed in the draft submission attached as an Appendix.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*
2. *Approve the attached submission on Greater Wellington's amendment to its Long Term Council Community Plan 2003-2013 and proposed 2005/06 Annual Plan, subject to any changes by the Committee.*
3. *Agree to delegate to the Mayor and Chief Executive the authority to make any minor drafting changes necessary before forwarding the submission to Greater Wellington Regional Council.*

4. Background

Greater Wellington is planning a major upgrade and re-investment in the Wellington commuter rail system over the next 10 years.

This will involve:

- the purchase of 58 new electric units for the Hutt and Paraparaumu lines
- the refurbishment of all existing Ganz-Mavag units on the Hutt and Paraparaumu lines (with some intended for eventual use on the Johnsonville Line)
- the improvement of existing stations
- the provision of new stations as demographics and demand require starting in 2006.

Projects already started are:

- refurbishment of English Electric units (Johnsonville, Hutt, Paraparaumu lines)
- refurbishment or replacement of carriages on the Wairarapa line.

The overall cost of this investment programme is set out in the following table:

10 Year Rail Expenditure	
	(\$M)
Operating Subsidy	143
Rolling stock	270
Infrastructure	47
Total	460
Funded by:	
Greater Wellington	184
Land Transport NZ	276
Total	460

Because of the size of the expenditure and the material impact on its financial projections, and the ownership of a new strategic asset, Greater Wellington is obliged under the Local Government Act 2002 to undertake consultation on the proposal. The closing date for submissions is Monday 11 April 2005. Note that this is an amendment to an existing plan that the Council submitted on in May 2003.

The attached submission is mindful of a strategic regional perspective rather than focusing on matters of narrower interest to Wellington City. In the long run, this is the approach that will deliver the best outcome to our citizens by promoting economic growth in the region and the provision of an optimised transport infrastructure.

The submission raises a number of issues for consideration by Greater Wellington about the analysis behind Greater Wellington's decision to re-invest in rail..

5. Discussion

The issues recommended for inclusion in the Council's submission are included in the attached draft.

6. Conclusion

It is proposed that Councillors approve the attached draft submission to Greater Wellington in accordance with the recommendations above.

Contact Officer: *Greg Campbell, Senior Strategic Advisor*

Supporting Information

1) Strategic Fit / Strategic Outcome

The attached submission is consistent with the Council's Transport Strategy, May 2004. Particular reference is made to the following elements of the transport vision:

Integrated – the different types of transport – car, bus, train, cable car, ferries, walking, cycling - must complement each other and produce a total transport system that maximises the benefits of each.

Efficient – the transport system should contribute to the economic viability of the city by facilitating movement of people and goods.

Affordable – infrastructure provision must take account of funding constraints and the many priorities for expenditure.

The submission is also consistent with the section in the Transport Strategy relating to the linkage between transport infrastructure and urban form.

2) LTCCP/Annual Plan reference and long term financial impact

Not applicable

3) Treaty of Waitangi considerations

Nil

4) Decision-Making

This submission is of medium significance in advancing the interests of the Council in regional transport infrastructure.

5) Consultation

a) General Consultation

Not applicable

b) Consultation with Maori

Not applicable

6) Legal Implications

Not applicable

7) Consistency with existing policy

Consistent with current policy as enunciated in the Transport Strategy.

SUBMISSION

**On Greater Wellington Regional Council's Proposed
Amendment to the Ten-year Plan 2003-2013 and
Proposed 2005/06 Annual Plan**

APRIL 2005

1. Introduction

This submission contains a number of key issues that the City Council wishes to raise in relation to the Proposed Amendment to the Ten-year Plan 2003-2013 developed by Greater Wellington Regional Council.

The City Council supports investment in public transport and a region where transport and urban form are closely integrated.

There are a number of studies underway at present which have a major bearing on the rail investment decision. The most significant of these are the Wellington Regional Strategy and the Western Corridor Study. The timing of the rail investment decision with respect to these studies is clearly not ideal but we recognise that it has been driven by other considerations.

We therefore request that the implementation of the rail investment decisions be undertaken in a way that is sufficiently flexible to accommodate the findings of these major studies as they emerge. In this regard, we have been encouraged by recent statements from your Chairman indicating that this is the intention. We are also pleased at your decision to defer the review of the Regional Land Transport Strategy until the findings of the above studies are available.

We consider that the rail investment decision could be enhanced by consideration of the following issues:

- a) Additional work to validate the Rail Business Case;
- b) Examining the proposed ownership structure for rolling stock;
- c) Linking the rail investment to supporting land use changes;
- d) Additional work on the financial projections.

When oral submissions are heard, the Council wishes to speak in support of its submission and we look forward to working with you.

2. Key Issues

a) The Rail Business Case

Although it has not been publicly released, the Rail Business Case (RBC) provides the justification for the decision to re-invest in rail. The following table summarises the benefit-cost analysis in the RBC:

RAIL BUSINESS CASE SUMMARY	
A. Road user benefits	\$259m
B. CO ₂ benefits	\$16m
C. Subsidy costs	\$246m
D. Government road capital savings	\$60m
Net benefit: A+B+C-D	\$89m
Efficiency Ratio: (A+B) / (D-C)	1.48
<p><i>Road user benefits</i> are the savings in time and vehicle operating costs. <i>CO₂ benefits</i> are the reduction in emissions, quantified in dollar terms. <i>Government road capital savings</i> arise from delaying or eliminating the need to build roads. <i>Subsidy costs</i> are what is paid by regional and central government to the operators of the service for capital and operating costs after deduction of fare box revenue. <i>Note:</i> all values given represent the difference between the bus and rail options.</p>	

The projected net benefit of \$89m represents less than 7% of the total project cost (\$1.35b) and could easily be eliminated by a minor movement in rail project costs. For example, although not part of the proposed investments, the cost estimates for following projects have increased¹ since being considered as part of the Wellington Transport Project in November 2004:

Project	November 2004	February 2005	Increase
Double-tracking Pukerua Bay - Paekakariki	\$126m	\$240m	\$114m 90%
Tunnel work Johnsonville Line	\$3m	\$4	\$1m 33%
Electrification to Waikanae	\$14m	\$25m	\$11m 79%
Total	\$143m	\$269m	\$126m 88%

This table shows the uncertainty of the cost estimates used in the analysis and the major impact any changes could have on whether the investment yields a net benefit to the community. The Rail Business Case itself suggests that the capital expenditure estimates may vary between +/- 10% to 50%².

Other issues arising from the RBC are:

- Projected road capital cost savings
- The consideration of bus alternatives
- Numbers of buses required for any alternative.

We suggest that these elements of the RBC be tested to ensure the robustness of its findings. Council officers will be happy to assist with this process.

¹ Greater Wellington Report to Mayoral Forum 25-2-05

² Ref 3.6 Accuracy of estimates, Pg 19, RBC

b) *Proposed Ownership of Rolling Stock*

One of the considerations leading to the proposal for direct ownership of rolling stock by Greater Wellington has been past experience where the previous operator allowed these assets to deteriorate. We acknowledge this issue but feel there are risks associated with the current proposal.

It is an accepted principle of structuring public investment that asset risk should be placed with the party best able to manage it i.e. the one who has the skill, control and incentives to do so.

Risks associated with the ownership of assets include:

- Residual value risk: the risk of the value of the asset decreasing more rapidly than planned
- Technical obsolescence: the risk of the technology becoming outdated due to unforeseen advances in technology
- Over-capacity: the risk of projected patronage figures failing to materialise

The party best able to manage these risks may be the operator of the assets, Toll NZ, just as Stagecoach manages these risks for its bus fleet.

A further aspect is the question of incentives. By taking on the ownership of the assets, Greater Wellington will set up a structure which removes the incentive for the operator to be efficient in its use of capital. A predictable commercial response will be for Toll to take the emphasis off capital efficiency where it receives no benefits in favour of efficiency of other inputs. For example, if it can reduce labour costs by increasing the public sector capital investment, it will do so. As rail is an extremely capital intensive industry, this is a major concern.

Because of the risks outlined above, we recommend that consideration be given to a different ownership model whereby ownership of capital remains with the operator, but with additional safeguards against problems which have occurred in the past. These would include adoption of a contract with greater supervisory and quality control provisions. The supply of rolling stock would be the responsibility of the operator within strict quality assurance requirements, in much the same way as occurs with our bus system, although with additional safeguards recognising the long lives of the rail assets.

In addition, we believe the RBC analysis / LTCCP financial projections should be revisited to include sensitivity testing around the cost of capital. A notional interest rate at least equivalent to the private sector cost of borrowing should be included in the analysis to determine its effect on the results.

c) *Rail investment as a catalyst*

This planned investment presents a major opportunity to link rail upgrades in certain parts of the network with supporting land use changes, and Council believes that we need to take full advantage of this to maximise the benefit of the investment

Providing a commuter rail service through the mostly lower-density suburbs on the Western and Hutt corridors (and the Johnsonville line) will become more effective if we can increase the population living within walking distance of the key stations.

Investment in transport is generally a significant influence on urban form, and investment in rail could be a key component in determining the future urban form of the Wellington metropolitan area.

This is why the Auckland Rail Business Plan is tightly linked to urban intensification initiatives. The significant new transit-orientated development around stations such as Newmarket, New Lynn and Kingsland in Auckland have all been closely linked to rail service improvements. Not only does this form of urban development reduce the cost of operating the rail network, it also produces a more sustainable urban form offering greater choice.

In order to lower operating subsidies, and therefore increase the return on this planned investment, Greater Wellington should strongly promote transit-orientated development around appropriate railway stations. Wellington City Council would be very pleased to work closely with you to explore options within the City's boundaries. At a regional level, the Wellington Regional Strategy offers an excellent opportunity for a fundamental review of land use around the major stations.

d) Financial Projections

Timeframe: Rail Business Case (25yrs) versus LTCCP (9yrs)

The Timeframe of the LTCCP only shows approximately 44% (\$346m) of the \$783m total capital expenditure programme in the Rail Business Case. This limits the ability to assess the full impact of the rail purchasing programme, for example, the impact on the ratepayer after 2013.

In addition, the risk of obtaining Government funding for the full capital expenditure programme after 2013 needs to be considered.

GWRC Rates increase

The highlighted rates increase from 3.5 to 3.8% in 05/06 does not reflect the total rates increase required for the ownership of rail rolling stock. Over the 9 year period of the amendment the rates increase by a further 11% above the LTCCP. Further increases in subsequent years of the life of the assets have not been quantified and would increase this further. We suggest that the full impact to GWRC ratepayers over the asset life be quantified.

Level of debt

The level of debt in the amended LTCCP appears to be net of depreciation funding. This equates to a \$66m lower debt level by the end of 2012/13. This debt will be increased when the capital replacement is required. The total (gross) debt less depreciation funding should be clearly itemised in the debt position.

Maintenance costs

It is unclear which party is responsible for the cost of the maintenance of the rolling stock. In theory the GWRC grant to Toll NZ should reduce due to GWRC taking over the cost of capital (interest), depreciation and fare increases. The annual grant and maintenance need to be itemised in the amendment to the LTCCP or specify which party is responsible for the maintenance.

3. Conclusion

Thank you for the opportunity to comment on the LTCCP and DAP amendment. We appreciate that addressing our concerns will require further work and analysis from Greater Wellington officers and consultants. Nevertheless, we believe that given the size of the rail investment and its significance for the long term future of the region, this work is justified. WCC officers will be available to assist as required.

Wellington City Council would appreciate the opportunity to discuss the matters raised in this submission further with you during the submission process.
